



Farmers and Merchants Bank

May 6, 2019

Attention: Comments

RE: Proposed Rulemaking -Brokered Deposits (RIN 3064-AE94)

Federal Deposit Insurance Corporation

All banks should be able to compete for deposits without regulations that prohibit the retention of core deposits. A relationship lost is seldom regained. Retaining core deposits simultaneously helps banks maintain an adequate level of liquidity and promotes safe and sound banking practices. Rate caps should be eliminated altogether. Instead, regulators should be allowed to use other enforcement actions to restrict a bank's growth. In the interim, rate waivers should be granted for banks to compete for core deposits and liquidity. However, asset growth should remain restricted and monitored frequently.

If rate caps must remain, the harm they impose needs to be mitigated. The first step is to define the meaning of the phrase "competing for deposits." Not all financial institutions in a market area are actively competing for deposits. In other words, the rate offered for a certificate of deposit (CD) is so low, no rational customer would agree to such terms. As a result, these noncompeting financial institutions, which are mostly national banks, skew RateWatch data and create a CD rate average far too low. To protect community banks, a new method for calculating the average rate for a market area should be implemented. For example, only include the top ten financial institutions in terms of CD rates being offered. A designated percentage would also work. Additionally, online competitors need to be included in the average CD rate calculation because they gather CD's from all markets. Using bankrate.com or a similar website, an equal number of online institutions may be chosen to be included in the average rate calculation. Lastly, RateWatch specials need to be handled differently. Specials with odd terms should be discounted to a normal term using a present value calculation instead of a linear interpolation. RateWatch used various abbreviations to denote different types of CD specials. For example, a CD special with an abbreviation of "RELCD" stands for Relationship CD. Currently, a bank under a rate restriction cannot include this special in their average rate calculation. In order to obtain an accurate average, all specials published by RateWatch should be allowed, no matter what the abbreviation states.

Regulations should help provide a rehabilitation plan for banks, not expose the bank to greater risk. Please consider the above recommendations and all others that accurately depict a community bank's

ability to compete for core deposits while still limiting growth. When a community bank is unable to obtain liquidity in a competitive market, undue pressure is put on our small communities as well as the insurance fund.

Thank you for allowing comments.



Jeff Parrish

Farmers and Merchants Bank